

Press Release

Six Accountants Charged with Using Leaked Confidential PCAOB Data in Quest to Improve Inspection Results for KPMG

FOR IMMEDIATE RELEASE

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Washington D.C., Jan. 22, 2018 — The Securities and Exchange Commission today announced charges against six certified public accountants – including former staffers at the Public Company Accounting Oversight Board (PCAOB) and former senior officials at KPMG LLP – arising from their participation in a scheme to misappropriate and use confidential information relating to the PCAOB's planned inspections of KPMG.

The SEC's Division of Enforcement and Office of the Chief Accountant allege that the former PCAOB officials made unauthorized disclosures of PCAOB plans for inspections of KPMG audits, enabling the former KPMG partners to analyze and revise audit workpapers in an effort to avoid negative findings by the PCAOB. Two of the former PCAOB officials had left the PCAOB to work at KPMG. The SEC's Enforcement Division and Office of the Chief Accountant allege the third official leaked PCAOB data at the time he was seeking employment with KPMG. The three former KPMG partners were all in the firm's national office. According to the SEC's order, the misconduct began in 2015 and persisted until February 2017. Soon after the conduct was discovered, the six respondents were terminated, resigned or placed on leave before separating from KPMG and the PCAOB, respectively.

"As alleged, these accountants engaged in shocking misconduct – literally stealing the exam – in an effort to interfere with the PCAOB's ability to detect audit deficiencies at KPMG," said Steven Peikin, Co-Director of the SEC's Enforcement Division. "The PCAOB inspections program is meant to assess whether firms are cutting corners, compromising their independence, or otherwise falling short in their responsibilities. The SEC cannot tolerate any scheme to subvert that important process."

In a parallel action, the U.S. Attorney's Office for the Southern District of New York today announced criminal charges against the six accountants.

The Chairman of the SEC, Jay Clayton, has issued a statement concerning these charges. The SEC stands ready to work with issuers to ensure that collateral effects, if any, to issuers and, in particular, their shareholders are minimized.

The SEC's Enforcement Division and Office of the Chief Accountant allege that while preparing to leave his supervisory position at the PCAOB for a job at KPMG, **Brian Sweet** downloaded confidential and sensitive inspection-related materials that he believed might help him at KPMG. KPMG had recruited him to join the firm at a time when it had a high rate of audit deficiencies. Indeed, nearly half of the KPMG audits that the PCAOB inspected in 2013 were found deficient.

After leaving the PCAOB, Sweet allegedly continued to gain access to confidential PCAOB materials through **Cynthia Holder**, a PCAOB inspector. After Holder joined Sweet at KPMG, a third PCAOB employee, **Jeffrey Wada**, allegedly leaked confidential information about planned PCAOB inspections of KPMG to Holder. According to the SEC's order, Wada leaked this information while he was seeking employment at KPMG.

The SEC's Enforcement Division and Office of the Chief Accountant allege that upon his arrival at KPMG, Sweet told his supervisors in KPMG's national office that he had taken confidential materials from the PCAOB and revealed, for example, the KPMG audit clients that the PCAOB intended to inspect that year. Allegedly encouraging Sweet to divulge the stolen information to them and others at the firm were his supervisors – **David Middendorf**, KPMG's then-national managing partner for audit quality and professional practice and **Thomas Whittle**, KPMG's then-national partner-in-charge for inspections and another high-level partner at the firm, **David Britt**, KPMG's banking and capital markets group co-leader. The SEC's Enforcement Division and Office of the Chief Accountant allege that Middendorf, Whittle, Sweet, Holder, and Britt worked together to review the audit workpapers for at least seven banks they were told the PCAOB would inspect in an effort to minimize the risk that the PCAOB would find deficiencies in those audits. Middendorf and Whittle allegedly instructed that no one disclose that they had confidential PCAOB information.

Sweet has agreed to settle to a Commission Order requiring that he cease-and-desist from violating PCAOB ethics rules and barring him from appearing or practicing before the Commission as an accountant based on findings that he, among other things, violated PCAOB ethics rules regarding confidentiality and lacks integrity.

The case will be scheduled for a public hearing before an administrative law judge, who will prepare an initial decision stating what, if any, remedial actions are appropriate.

The SEC's investigation, which is continuing, has been conducted by Ian Rupell and supervised by Rami Sibay. Along with Mr. Rupell, the litigation will be conducted by Melissa Armstrong, and supervised by Fred Block. The SEC appreciates the assistance of the U.S. Attorney's Office for the Southern District of New York as well as the U.S. Postal Inspection Service.

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Related Materials

- SEC Order - Sweet
- SEC Order - Others
- Statement by SEC Chairman Jay Clayton